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**Master's Thesis**

**A Study on the National Basic Livelihood Security  
System: Focusing on Work Incentive**

**August 2013**

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**A Study on the National Basic Livelihood Security  
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**Submitting a master's thesis of Public Policy**

**April 2013**

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# **Abstract**

With the foreign currency crisis in 1997 in Korea, necessity of universal welfare that the government should guarantee the basic livelihood of people systematically was suggested due to the increase of low-incomers. Accordingly, the National Basic Livelihood Security System (NBLSS) was introduced in October, 2000, which made the targets of cash benefits increase by including the workable poor who had not been covered by cash benefits subject to participating in self-support programs. The NBLSS is significant because it is the last social security net that the government guarantees the minimum livelihood of people as their right.

Therefore, in this study, it was assumed that special beneficiaries receiving more benefits than regular beneficiaries would depend more on welfare, and their work incentive would be lower than regular beneficiaries. And the beneficiaries under the NBLSS were divided into special beneficiaries and regular beneficiaries, and then it was reviewed on how their economic activities, work days and earned income affect their work incentive.

As a result of research, the work incentive of special beneficiaries was positive (+), and that of regular beneficiaries was rather negative (-). To interpret in another way, about 19% of special beneficiaries were workable, being 109 out of 576; and about 53% of regular beneficiaries were workable. Under this assumption, The fact that above 50% of regular beneficiaries have negative tendency in work incentive shows that benefit provision under the NBLSS has been inappropriate; and the fact that special

beneficiaries among whom 20% or less are workable have positive tendency in work incentive shows that they work to supplement lacking benefit individually. Eventually, it could be reinterpreted that all beneficiaries provide the minimal amount of work to main their eligibility for benefits.

With coming benefit system for special beneficiaries by levels, which will be introduced in 2014, it is intended in this study to analyze the work incentive related to work ability, which has been evaluated in various aspects with every attempt for system improvement, and the work incentive related to beneficiary type, which has never been discussed except for labor supply. Also, this study of using the transverse section data differently from the previous studies of having used longitudinal section data contains information at a certain time. However, this study is intended to verify the work incentive of beneficiaries of different benefit types (special & regular) at a certain time, with the concept that the work incentive pattern is more influenced by personal properties of each beneficiary rather than by continuously influenced by the NBLSS because the work incentive pattern of a subject beneficiary, which appear with the changes of benefit level with time intervals is not a factor of maturation with time passed.

**Keywords:** SpecialBeneficiary, Work Incentive, the NBLSS, Labor Policy, Public Assistances

**Student ID Number: 2010-22199**

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## Chapter 1.Introduction

In modern welfare countries, the income-guaranteeing policy for poverty prevention is composed of social security insurance, social security benefit, public assistance, tax benefits, etc. Public assistance basically aims at guaranteeing the basic livelihood of people in poverty through fair income transfer to them. However, importance has been put on the objective to promote employment and self-sufficiency in the labor market. Since 1990's, the worldwide flow of public assistance policy has been changed to the direction of focusing on the employment-promoting policy which helps the entry of the poor into the labor market rather than guaranteeing their income through public transfer.

The labor-inducing policy reinforced in such a trend has been characterized by active labor market policy and labor-related welfare policy as the basic frame with the goal to make beneficiaries independent through jobs (from welfare to work), with which inducement to financial independence through work as an attracting factor and strengthened sanctions as a whipping factor have been combined.

The ideal objective of public assistance programs in recent day is to



provide appropriate level of benefits to needy people with limited resources, but not to decrease the willingness for work of beneficiaries or non-beneficiaries; and eventually to achieve economic efficiency, income guarantee and inducement to work.

However, those three eventual objectives have conflicts in reality, and cause many problems when policies are set up. If economic efficiency and inducement to work are focused on, there may be a possibility of not providing appropriate level of benefits to needy people; and it needs income guarantee for low-income class to maintain the life quality, but it may cause side effects of dependence of beneficiaries on welfare, antipathy of taxpayers and increase of public expenditures. The public assistance system of any country couldn't have solved this problem completely, and countries have been designing the system by combining the objectives according to the social agreement and the priorities of policy objectives (Black, et al., 1999).

The National Basic Livelihood Security System (NBLSS) of Korea have two objectives of basic livelihood security and self-sufficiency promotion. The system has been successful in alleviating immediate poverty and supporting livelihood of people in poverty, but it is doubtful if such support has led to achievement of their self-sufficiency.

Since workable people are listed as the beneficiaries of this system, there is

apprehension that the beneficiaries are being demotivated to work and the tendency of depending on welfare and trying not to be excluded from the benefits is getting severe. This system has the nature of workfare which obligates the workable beneficiaries to work subject to conditional public assistance, and the nature as a protective system for the working poor that low-income workers are paid in cash also subject to satisfaction of certain requirements (Loedemeland Dahl, 2000).

Due to such complex natures, the NBLSS is connected with many systems related to social security. In terms of protecting the jobless and protecting the working poor who are involved in the minimum wage system to secure the minimum level income in the labor market, its relation with the unemployment insurance system should be considered. It not only has the nature as unemployment insurance and but also integrates active labor market policies covering the employment stabilization and career capacity development. In addition, deduction on earned income is implemented under this system. The tax system is related to income and tax deduction (Hwang, 2001).

A number of models have been published regarding inducement of the beneficiaries of public assistance to work and their work types. First, it is argued between the income effect caused by the income earned from public transfer without working and the substitution effect caused by the reduced income due to tax. Second, the models about whether the poor choose work or choose benefits by escaping from the labor market are in conflict, which include rational choice

model<sup>1</sup>, economic cycle model<sup>2</sup>, expectancy model<sup>3</sup>, class cultural model<sup>4</sup>, etc.

According to Arkinson (1993), those models are the hypotheses in which many factors in reality are abstracted, and much more complex economic and non-economic variables are considered when each beneficiary of public assistance determines whether to work or not.

On the basis of those models, the policies of work incentive are being implemented. First, the policies are to promote the working desire of beneficiaries by reorganizing the benefit calculating method, additional benefits, period for benefit payment, etc. considering that the benefit system of public assistance decisively affects the work incentive of beneficiaries, and the supplementation principle and the integrated benefit system under the NBLSS have a possibility of weakening the work incentive of beneficiaries. Second, those are to promote work activities for positive aspects by providing financial incentives for low-income earners, and the well-known models are income disregard under the public assistance system of many countries, Earned Income Tax Credit (EITC) of the U. S.,

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<sup>1</sup> The theory that workers determine the entry into the labor market and laboring hours subject to the condition that the utility coming to them can be maximized by unifying the interest from labor and the money paid for it as the concept of utility (Moffitt 1992, Edin&Lein 1997).

<sup>2</sup> The theory that macro-economic condition represented by the unemployment rate is the main factor of determining the employment of beneficiaries (Black & Blinder 1986).

<sup>3</sup> The theory that expectation formed on the basis of experience determines the work type of individuals.

<sup>4</sup> The theory that deviant culture, pessimistic view of life, dependent habit, inferiority complex, fatalism, etc. which are observed by the poor are main factors which interfere the employment of beneficiaries and widely poor people (Banfield 1968, Rosenbaum & Popkin 1991). However, the theory of poverty culture was blamed by empirical analyses showing that deviant culture is not a cause of poverty but a result of it (Valentine 1968, Beeghley 1983, Corcoran, et al. 1985, Spicker 1993).

and Working Tax Credit (WTC) of U. K. The EITC and the WTC are income security models that the governments pay in cash to the workers earning below a certain level in accordance with the prescribed standard through the tax system (Lee, 2002). Third, the active labor market policy attempted in Europe is to prevent or eliminate unemployment and to promote create job opportunities and promote employment directly or indirectly through the control and involvement of the government for the balanced demand and supply of manpower.

This is the policy of the national basic livelihood security system commenced in October, 2000 as a type of self-sufficiency program. In such a way, many countries have been making efforts for work incentive policies, and South Korea adopted this through the NBLSS which started as a self-support program in October, 2000. Today, 13 years after the NBLSS was introduced, it is settled as the basis of poverty policy, and is being positioned as a critical social security system through which the minimum living standard is guaranteed by the government. This has been implemented with improvement of many times through positive participation and discussion of the concerned authority, academic society and civic groups.

At every time of improvement of this system, diagnosis and evaluation on it has been made in diverse aspects. Especially, due to the self-support program which is the most remarkable characteristic of this system, work incentive of workable beneficiaries and non-workable beneficiaries has been argued, but work incentive

according to the type of beneficiaries has been argued. Since the graded benefit scheme for special beneficiaries will be adopted in 2014, the importance of work incentive according to the types of beneficiary will be an issue also.

On May 14, 2013, Prime Minister Hong Won Jung and the concerned ministers agreed to change the welfare paradigm from the existing benefit providing system which was an integrated benefit system as ‘customized employment/welfare’ to the welfare system of paying the benefits by different levels after selecting the beneficiaries for special benefits (residence, healthcare and education) by steps in October, 2014. This will be much helpful not only for the welfare of people in unprivileged condition of welfare but also for special beneficiaries who are main targets, and it is expected that this will influence inducing the normal beneficiaries of the NBLSS excluding a certain period of time and a certain group (special beneficiaries).

The reason why work incentive of such two groups is that the group of special beneficiaries who receive applicable special benefits (residence, healthcare, education, self-support, etc.) may have less work incentive than regular beneficiaries who receive living benefits. If this assumption is true, the new benefit system to be implemented from 2014 may result in declining the work incentive, which will led to failure to achieve the goal to guide self-support and will increase the dependence on welfare, although it will guarantee the minimum living standard of people in poverty; therefore, the new benefit system may be criticized

also.

Therefore, this study is intended to research how to induce those special beneficiaries to work. This is significant because the effect on future change of the system of providing special beneficiaries with benefits could be predicted indirectly.

## Chapter 2. The National Basic Livelihood Security System (NBLSS)

### 1. Background of the NBLSS

When the financial crisis of Korea under IMF control brought up unprecedented mass unemployment and a poor class problem came to the fore newly in 1997, the Korean government realized the limitation of the Livelihood Protection Program that already existed. Thereafter, there has been needed to make the policy to cover total poverty countermeasure with productive welfare that promotes self-reliance of beneficiaries with civic organizations headed by a social consensus of society. The Korean government increased social assistance programs for the poor who have work ability on the basis of notion of productive welfare. The National Basic Livelihood Security Act introduced in 1999 incorporated an active labor market component into its social assistance programs and established the basic minimum livelihood benefit.

The Livelihood Protection Program (LPP), which was established by the military regime in 1961, caused social problems for poor people having work ability to be left in blind spot such as suicide, break down of family, becoming homeless etc. because the LPP focuses on the elder and the disabled who have incapacity of living. Finally in 1998, 45 civic organizations requested the ‘National Basic

Livelihood Security System Process Enactment Regiments Council', and on 7<sup>th</sup> of September in 1999, the legislation has been enacted to be enforced on 1<sup>st</sup> of October in 2000.

## 2. Five Distinctive Characteristics between the LPP and the NBLSS

The earlier welfare system called 'Livelihood Protection program (LPP)' and the later system 'National basic Livelihood Security System (NBLSS)' have five differences between them. It replaced the LPP of 1961 which was aimed at providing minimal income maintenance for the 'deserving poor'. The NBLSS solved the problem of the previous program LPP of providing livelihood benefits to the people having work ability. <Table1> shows the standard of determining the household who has less income level than the minimum living expenses, which has changed from various standards to one actual standard as the Minister of the Ministry of Health and Welfare announced.



<Table 1> the Distinctive Features of the LPP and the NBLSS

Division	The Livelihood Protection Program	The National Basic Livelihood Security System
Coverage	Deserving poor -Age exclusion (18-64) for cash benefit -Only for those without ability to work	-Abandon age category -All eligible, regardless of ability to work
Means test	-Income limit and asset limit (measured separately)	-Combined measurement (under the recognized amount of income criteria)
Benefit level	Basic sustenance level, which was unrealistically low	Benefits more generous; new housing and welfare-to-work benefits
Benefit method	Flat-rate	Supplementary
Poverty line	Dependent on available budget	Minimum cost of living

(Source: The National Basic Livelihood Security System Monitoring and Evaluating, 2009)

Calculation in the means test was mitigated from the calculation of each income limit and asset limit to the calculation by one measurement under the approved income criterion. The changed benefit level and method make these two systems distinctive. The flat-rate method that covers the basic sustenance level only was changed to the supplementary method that covers new housing and welfare-to-work benefits also. In addition, the NBLSS is emphasized in the production side of public assistance as it is involved in the self-support program for the people having work ability.

First, the notion of the English Poor Law, of helping the ‘deserving poor’

only, was abandoned, and the NBLSS extended the coverage to all needy citizens, regardless of their work ability. Thus, under the NBLSS, the able-bodies, unemployed poor, have become eligible for social assistance benefits. The NBLSS also abolished the eligibility of the age categories in the previous scheme which had excluded those between 18 and 64 from receiving cash benefits.

Second, the Nation Basic Livelihood Security System redefined the official poverty line<sup>5</sup> in terms of the minimum living cost. Many countries and institutions defined the poverty line in various ways. See below <Table 2>. The major institutions or countries chose to define the poverty line as relative approach.

<Table 2> Relative Poverty Line of Major Institutions or Countries

Major Institutions / Countries	Criteria for Relative Poverty Line
OECD	40%, 50%, or 60% of the median income
World Bank	For developing countries, 1/3 of the average income; for advanced countries, 1/2 of the average income
Great Britain	50% of the average income
France	50% of the median income
Japan	68% of the average expenditure

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<sup>5</sup> To define poverty line, there are two major ways: The first is Absolute Poverty Thresholds and the second is Relative Poverty Thresholds. As explained by the National Academy of Sciences panel, "Absolute thresholds are fixed at a point of time and updated solely for price changes.... In contrast, relative thresholds, as commonly defined, are developed by reference to the actual expenditures (or income) of the population." See Citro and Michael, eds., *Measuring Poverty: A New Approach* (National Academy Press, 1995), page 31, "Types of Poverty Thresholds."

In this study, the poverty line was defined as Relative Poverty line as the minimum living cost determined on the basis of the households below a certain percentage of the average (or median) earnings (or expenditures) that are deemed unable for people to enjoy the standard level of living that the majority of society generally enjoy. The Relative Poverty line is the easiest way to measure poverty and is used by advanced nations that have eradicated absolute poverty to some degree. However, it leaves an open question as to which level should be set for the minimum living cost on the basis of which criteria. The NBLSS turned out to be more inclusive and more tolerant than the earlier LPP's guidelines.

As afore-mentioned, the minimum living cost is measured by The Market Basket Approach, which is used to estimate a realistic, subsistence level of living. This Approach is also called as Rowntree's approach, which is a way of determining the minimum living cost by identifying the minimum level of all necessities required for subsistence and by converting it into a monetary value ( $\text{Price} \times \text{Minimum consumption quantity}$ ). Market Basket Approach is useful for calculating the basic amount of each type of supplementary benefits such as medical benefits or educational benefits and for determining the criteria for provision of additional benefits for each type of household such as household of the disabled or the elderly;

however, this Approach also has a risk of subjective judgment by a researcher in determining what constitutes necessities (Ministry of Health & Welfare, 2013)<sup>6</sup>.

<Table 3> Poverty Line (Minimum Cost of Living) –Monthly Income (Unit: KRW)

Year	1-person household	2-person household	3-person household	4-person household	5-person household	6-person household	Increase rate
2000	324,011	536,614	738,076	928,398	1,055,588	1,191,134	3.0%
2001	333,731	552,712	760,218	956,250	1,087,256	1,226,868	3.0%
2002	345,412	572,058	786,827	989,719	1,125,311	1,269,809	3.5%
2003	355,774	589,219	810,431	1,019,411	1,159,070	1,307,904	3.0%
2004	368,226	609,842	838,797	1,055,090	1,199,637	1,353,680	3.5%
2005	401,466	668,504	907,929	1,136,332	1,302,918	1,477,800	7.15%
2006	418,309	700,489	939,314	1,170,422	1,353,242	1,542,382	3.0%
2007	435,921	734,412	972,866	1,205,535	1,405,412	1,609,630	3.0%
2008	463,047	784,319	1,026,603	1,265,848	1,487,878	1,712,186	5.0%

<sup>6</sup> To measure the minimum living cost, there is another approach that is the Food Basket Approach so call Engel, Orshansky Approach. This approach is a way of determining the minimum living cost by identifying the minimum food cost and multiplying it by the inverse of the Engel's coefficient (food cost/total income). This approach is easier to apply and better minimizes the subjectivity of researchers than the market basket approach. However, subjectivity may still occur in setting the minimum living standard to determine the Engel's coefficient, and this approach renders measurement of the minimum living cost for household types more difficult than the market basket approach.

<b>Year</b>	<b>1-person household</b>	<b>2-person household</b>	<b>3-person household</b>	<b>4-person household</b>	<b>5-person household</b>	<b>6-person household</b>	<b>Increase rate</b>
<b>2009</b>	490,845	835,763	1,081,186	1,326,609	1,572,031	1,817,454	4.8%
<b>2010</b>	504,344	858,747	1,110,919	1,363,091	1,615,263	1,867,435	2.75%
<b>2011</b>	532,583	906,830	1,173,121	1,439,413	1,705,704	1,971,995	5.6%
<b>2012</b>	553,354	942,197	1,218,873	1,495,550	1,772,227	2,048,904	3.9%
<b>2013</b>	572,168	974,231	1,260,315	1,546,399	1,832,482	2,118,566	3.4%

(Source: Ministry of Health and Welfare-4 people standard)

<Table 3> shows the official poverty line in Korea. The rate of the poverty line has increased 3.9% on the average since 2000. The minimum living cost has become the official poverty guideline in determining the eligibility for NBLSS benefits. Under the previous scheme, the Korean government adjusted poverty guidelines according to the available portion of the annual budget at their discretion. The NBLSS introduced a scientific and realistic poverty guideline reflecting the minimum living cost which is the benefit amount to meet either an individuals' or a family's basic needs.

Third, a new means test method was adopted by the NBLSS which replaced the previous means test by which individual income and household assets had been measured separately. In place of the LPP means test, the NBLSS

introduced a measurement tool known as the ‘approved income criteria’, which combined income and assets into one estimated household income by converting household assets and property into the income flow. Calculation of the approved income which is explained in more details late in the ‘Eligibility based on the Approved Income Criteria’ part is explained in the part ‘The Eligibility Criteria for Beneficiaries’. The criteria for the minimum living cost and the person under obligation to support must satisfy the conditions provided by this system. For example, in 1999, the means test guidelines under the LPP set the monthly income threshold as 230 thousand Korean won per person, and the overall assets threshold as 29 million Korean won per household to be eligible for LPP benefits. However, in 2000, under the NBLSS, all people whose estimated monthly household income fell below the minimum living cost of (KRW928,398 for a family of 4 members) as measured according to the ‘approved income criteria’ were eligible for the NBLSS benefits. At first, the monthly household income of applicants should not exceed ‘the minimum living cost’ line that the Minister of the Ministry of Health and Welfare announced every year. The income, when it is used in this system, means the ‘approved income’ plus converted amount of property income into the assessed income, and minus the amount deducted.

Fourth, housing and welfare-to-work benefits were introduced. Housing benefits are provided to cover the rent and maintenance expenses to provide stability for low-income people. The welfare-to-work benefit is provided to those with work ability, subject to their participation in the self-support program. As

described later, the NBLSS beneficiaries able to work are often called ‘conditional beneficiaries’ who need to participate in various self-support programs as a condition for receiving cash benefit provided in the form of welfare-to-work benefits.

Finally, unlike the LPP which provided flat-rate benefits, the NBLSS provides graduated benefits to ensure that beneficiaries reach the basic income guaranteed by the government. However, the NBLSS benefit structure does not allow an incremental phase-out of benefits once this amount is exceeded through additional income. Instead, all the benefits are removed at once as soon as household income rises beyond the poverty line.

### 3. Characteristic of the NBLSS

The National Basic Livelihood Security System is a public assistance system, and it has three characteristics. First, it is a welfare system. The system’s finance is not made from contribution such insurance premium, but the government covers all the expenses with general taxes. Second, it is a residual welfare provision system that selects the beneficiaries strictly through means test. Last, it is a welfare system that requires prior self-seeking efforts on the poor strata to appeal help at the last moment. At this point, the NBLSS is called as the last social safety net that the poor strata can appeal.

On the basis of the notion of productive welfare, the government introduced major reforms to the country's social security system in 2000 as it said above. One of these reforms made to the social insurance system. First, the social insurance system has become more integrated and efficient through administrative improvements. Second, the coverage under the social insurance programs was expanded to include the vast majority of people. However, the most distinctive application of the concept of productive welfare was made in reforming the social assistance program.

#### 4. Key Contents of the NBLSS

The social security system under the Social Security Act of Korea is composed of 5 social insurances, public assistance and social welfare service. Out of them, public assistance is provided mainly by the NBLSS, and additionally by healthcare benefits, patriots & veterans benefits, disaster relief benefit, etc. (Kim, et al., 2010). As it is known, the purpose of this system is to guarantee the minimum level of livelihood as the final social security network for people, and to form their self-sufficiency.

##### 1) Principles of Benefits

Under the system, the benefits for every household unit are guaranteed, and a



special system of guaranteeing the benefit for individual unit (healthcare, residence, education, self-sufficiency, etc.) is set up additionally. The seven principles of benefits under this system are the minimum livelihood security, supplementary benefits, support for independence, individuality, family support priority, other benefit priority, and universality.

## 2) Types of Benefits

There are eight types of benefits covering livelihood, residence, healthcare, education, birth giving, funeral and memorial service, self-sufficiency, and emergency support; and benefits for healthcare and emergency support are separately prescribed in accordance with the respective benefit law.

## 3) The Eligibility Criteria

Pursuant to Article 5-1 of the same law, the beneficiaries who have no person under obligation to support, have a person having no ability of supporting, or could not be supported, and whose admitted income is below the minimum level of livelihood are eligible for benefits. In other words, it is prescribed that one is considered as a beneficiary when he or she satisfies both standards of admitted income and a person under obligation to support, and exceptionally when the Minister of Healthcare and Welfare determines that he or she needs to be paid a part of or total of benefits as prescribed in Article 5-2 of this law.

From the year 2003, the eligibility criteria for beneficiaries have changed to the approved income and a person under obligation to support. The eligibility criteria for beneficiaries have been made on the basis of only two factors that are the approved income and a person under obligation to support. It used to be based on the assessed income, the assessed property, and a person under obligation to support, which were more rigid than the current criteria.

<Table 4> Changed the Eligibility Criteria for Beneficiaries

Criteria before changed (up to 2002)	Criteria after changed (Starting 2003)	
Assessed income	Assessed income	Approved income
Property Physical property (house, farm, car)	Converted property income (Physical property factor eliminated)	
Person under obligation to support		Person under obligation to support

(Source: Ministry Health & Welfare)

<Table 4> shows details about the criteria for eligibility to be a beneficiary. Assessed income is the only one not changed from the former system, and it is left as the ‘approved income’ in the current criteria to combine with converted property income. Nevertheless, another criterion, a person under obligation to support has not changed and is left as it is, but the details of standard beneficiaries itself

changed from the people having ability to support his/her second lineal relative such as grandparents, parents, son, daughter, and grandchildren to those having ability to support his/her first lineal relatives such parents, sons, sons-in-law, daughter and daughter-in-law as lenient to have the benefit.

#### (1) Approved income Criteria (Standard: Year of 2012)

The approved income was separate in each of the income basis and property basis until the year 2002. However, from the year 2003, the beneficiaries and the standard of wage can be decided by the approved income that calculated for each household, and it is compared with each minimum living cost per household provided by the Minister of Justice in Chapter 5 of the National Basic Livelihood Security System ACT. The approved income is the sum of assessed income and the converted amount of property income. At this point, the assessed income is calculated by subtracting the expenses from the actual income according to the household characteristics and subtracting the amount of deduction from earned income. The converted property income is obtained by subtracting the fundamental value of property from property amount and subtracting the liabilities, at the rate of multiple income conversion.

To get benefits from this system, the criteria for approved income criteria and for person under obligation to support have to be satisfied. At first, a

household's monthly income should not exceed the minimum living cost which is announced by the Minister of the Ministry of Health and Welfare every year.

<Table 5> Calculate approved income (Standard: Year of 2012)

**Approved income = Assessed income + Converted amount of property income**

- Assessed income= (Actual income - Expenses based on household characteristics - Earned income deduction)
- Converted property income- ((Property - Fundamental value of property - Liabilities) X (Income conversion rate))

(Source: Ministry Health & Welfare)

The income mentioned in this system means the 'approved income' which is the sum of assessed income and converted amount of property income. The assessed income is calculated by subtracting the expenses according to the household characteristics from actual income and subtracting the amount of deduction from earned income. The converted property income is obtained by subtracting the fundamental value of property from property amount and subtracting the liabilities, at the rate of multiple income conversion as shown in <Table 5> above.

(2) Person under Obligation to Support Criteria (Standard: Year of 2012)

A beneficiary should have no person under obligation to support<sup>7</sup>. Although a person under obligation to support exists, he/she should be unable to render support; or a beneficiary should be unable to be supported.

<Table 6 > Division of Person under Obligation to Support

A person under obligation to support	Ability to render support	Criteria for a person under obligation to support
None	-	Meet criteria for a person under obligation to support
Where a person under obligation to support exists	Unable to render support	Criteria for persons under obligation to support [○]
	Scarcely able to render support	Criteria for persons under obligation to support [△]
		(Selected under assumption that sustenance allowances are provided)

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<sup>7</sup> Scope of 'person under obligation to support' is a person with first lineal relations with a beneficiary such as parents, son, and daughter or their spouse: daughter-in-law, son-in-law, etc.

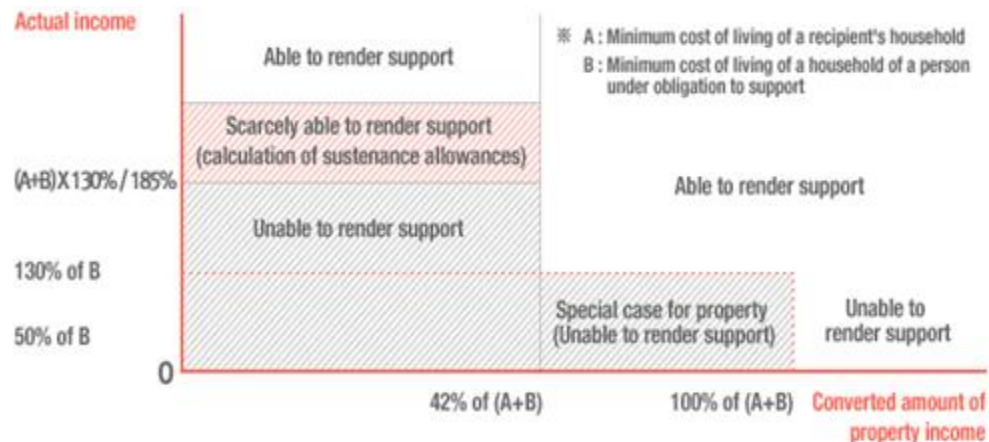
	Able to render support (impossible to support; evasion of responsibility to support, etc.)	Criteria for persons under obligation to support [○]
	Able to render support (providing support)	Criteria for persons under obligation to support [X]

(Source: Ministry Health & Welfare)

Pursuant to Articles 4 and 5 of the same law and its enforcement order, each of the following cases will be considered as a beneficiary who satisfies the standard of a person under obligation to support.

- In case that a beneficiary has no person under obligation to support;
- In case that a beneficiary has a person under obligation to support but without ability of supporting;
- In case that a beneficiary has a person under obligation to support but considered as having no ability in terms of supporting the beneficiary; or
- In case that a beneficiary could not be supported by a person under obligation to support, if any.

<Figure1> Judgment of Ability to Support General Criteria



(Source: Ministry Health & Welfare)

- ※ The special case for property criteria is only applied to the cases where the household of a person under obligation to support does not have a household member who is able to work; or the only property is a house.
- ※ (Special cases for property criteria for a person under obligation to support)

The above figure shows the basic principles of determining the possibility to be supported. The income of a person under obligation to support without such ability should be less than 130% of the minimum livelihood expenses per household, and his converted amount of property income should be less than 43% of the sum of respective minimum livelihood expenses of beneficiary and such person under obligation to support. In addition, in the criterion of lacking ability of support, the income of the person under obligation to support should be more than 130% of the minimum livelihood expenses of his or her household, and should be less than 130%

of the sum of respective minimum livelihood expenses of the household of beneficiary and that of the person under obligation to support, and such person's converted amount of property income should be less than 42% of the sum of respective minimum livelihood expenses of beneficiary and the person under obligation to support.

### (3) Special Criteria for Beneficiary (Standard: Year of 2012)

#### ① Special Application of Property Coverage

In converting the income, a household composed of non-workable people only such as elderly person, serious handicapped person, etc. is excluded from conversion into income (i) if their property value is less than 850 million won in a major city, less than 650 million won in a small or medium city, or less than 600 million won in a rural area, (ii) if the financial asset is the basic property value in each region; and (iii) if they have no automobile of which rate of converting into income is 100%. Furthermore, a household whose property is difficult to be converted into income due to trouble of disposing the property is excluded from conversion into income if their property value, etc. is in the afore-mentioned range.



## ② Medical Benefits

The second type of special cases is for medical benefits. If the medical expenses incurred continuously for more than six months are deducted from the approved income, the household should meet the criteria beneficiary designation; however, since the household was selected as a beneficiary, the medical expenses subject to deduction have not incurred any more so that the household is beyond the criteria in the approved income. In such case, medical benefits are only paid to the individual household member who needs continuous funding for medical expenses.

## ③ Education Benefits

The third type of special cases is for education benefits. If the education expenses for middle and high school students (e.g. admission fee, tuition fee) are deducted from the approved income, the household should meet the criteria for beneficiary designation; however, since the household was designated as a beneficiary, the education expenses subject to deduction have not incurred so that the household is beyond the criteria in the approved income. In such case, education benefits are paid to the individual student concerned.

## ④ Self-Sufficiency Benefits

The self-support benefit is the fourth type of a special case. If an applicant's approved income exceeds the criteria designation as a beneficiary due to his/her

income increased by his/her participation in self-support programs such as self-support work, self-support community, or self-support program, the self-support benefits continue to be paid to the individual concerned so that he/she can continue to participate in such self-support program. (Payment of livelihood/housing benefits discontinues.)

#### ⑤ Transition Benefits

The fifth type of the special cases is for transition benefits. If an applicant's approved income exceeds the criteria to be designated as a beneficiary due to his/her earned income or business income when he/she has the Hope Growing Accounts (Individual Development Accounts, IDAs) or participates in Integral job-seeking support system for low-income group (MOEL) or Hope Re-born Project, the transition benefits (medical and education benefits for two years) are paid to each household.

The scope of eligible beneficiaries for special benefits is based on the person(s) under obligation to support, and eligible beneficiaries under property criteria are also based on the person under obligation to support. Regarding the criteria for a person under obligation to support for special cases of medical benefits, see the guideline on the criteria for calculation of the approved income and minimum living cost, and the 2012 changes in eligibility for beneficiaries.

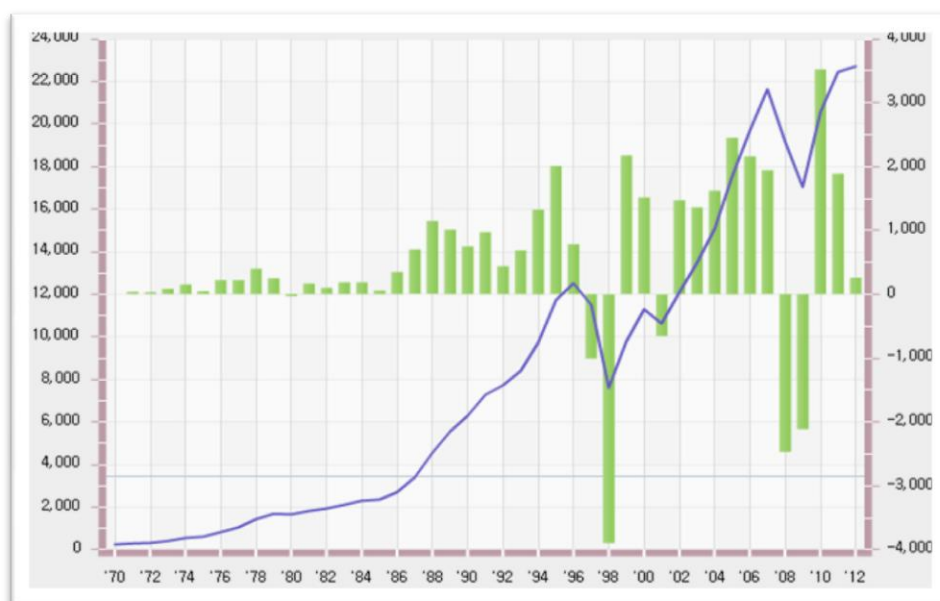
## 5. Welfare-to-Work of the NBLSS

In 2000, the forty-year-old Livelihood Protection Program (LPP) was replaced with the National Basic Livelihood Security System (NBLSS). The new scheme was implemented to provide eligible low incomers with subsidies and to ensure that they achieve a minimum standard of living regardless of work ability. The age was excluded and the work ability requirement of the old Livelihood Protection Program (LPP) was abolished; moreover, the notion of the Poor Law of serving only the ‘deserving poor’ was abandoned.

As noted in the introduction part, one of the most important features of the new social assistance scheme is the self-support program, which is Korea’s unique welfare-to-work program. It is designed to enhance the capacity of social assistance beneficiaries to achieve self-support through participation in labor market. In this regard, the self-support program is widely acknowledged as a key element in Korea’s productive welfare model. Beneficiaries of social assistance benefits, who are able to participate in welfare-to-work activities, are referred to local self-support agencies where they receive training and job placement. These self-support agencies are non-profit organizations who are contracted with the government. In addition, they may be referred to a local municipal government to be placed in a public workfare type program. A unique feature of the self-support agencies is that they target those clients seeking for employment in the open job market or otherwise wishing to establish their own businesses. They also provide marketable job training

and education opportunities

<Figure 2> Minimum income line-Poverty Line



(Source: The Bank of Korea)

Self-support agency clients receive social assistance benefits from the NBLSS while they are in the welfare-to-work program. However, once they find a stable source of income from regular employment or participation in cooperative micro-enterprises, they are no longer to receive cash benefits. They are provided their work as limited; just not to fall below the poverty line. (See <Figure 2.> In this case, the scheme provides supplementary benefits to ensure that they reach the minimum income guaranteed by the government. However, it is hoped that clients having participated in the welfare-to-work program will attain self-support and

enjoy reasonable improvements in their standard of living.

## 6. The NBLSS Procedures

An application, which applicants submit for the benefits,<sup>8</sup> will automatically go through several examinations<sup>9</sup> and once he/she passed the examinations, they become a beneficiary of benefits<sup>10</sup> and get paid<sup>11</sup> the benefit that they have applied. The beneficiary must verify<sup>12</sup> his/her eligibility for the benefits, and if the

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<sup>8</sup> A beneficiary, his/her relative or any other authorized person, or a public official in charge of social welfare by virtue of his/her authority applies for benefits to the Eup/Myeon/Dong office with jurisdiction over the domicile of the beneficiary. (Public workers, etc. may apply for benefits for low-income households.)

Required documents are an application form for benefits, a consent form for release of financial information, and other documents to prove income and property, etc.

<sup>9</sup> First, it is to determine whether the applicants are in the scope of eligible households and persons under obligation to support. Second, it is to verify the official documents, such financial assets through income/property declaration data and the Happiness E-eum (integrated computerized database for social welfare administration). Third, it is to examine the actual living conditions of beneficiaries; and the income of beneficiaries whose official documents were not examined should be additionally verified according to their actual expenditure table. Forth, it is to determine the beneficiary's work ability in reference to the characteristics of their household, disability, or medical certificates according to the work ability determination process.

<sup>10</sup> Eligibility and details of benefit payment are determined on the basis of the results of examination.

-Notification on the details of decision. (via e-mail, SMS, or documentation)

-If one intends to raise an objection to a decision, he/she may file a formal objection within 60 days from receipt of the notice.

<sup>11</sup> -Decided benefits are paid to a household or a person designated as a beneficiary.

-Types of benefits: Livelihood benefits, housing benefits, education benefits, childbirth benefits, funeral benefits, and medical benefits

-Livelihood benefits and housing benefits are paid in cash; and other benefits are paid in-kind.

<sup>12</sup> -Any modification to official data is examined through the Happiness E-eum (integrated

verification reveals to be false, the beneficiary is no longer eligible. If it is found that his or her eligibility for benefits is obtained through a fraud, he/she will be imposed on penalties in accordance with the criteria for collection of the assistance costs, which means discontinuance of assistance.

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computerized database for social welfare administration) on a regular basis.

-For a beneficiary not subject to official documentation requirements, the inquiry for verification will be carried out in accordance with annual plans of each administrative unit of Si/Gun/Gu.

-Decision on change in or discontinuation of benefits is made if modifications need to be made based on the findings of inquiry for verification.

## Chapter3. Theoretical Discussion and Literature Review

### 1. Theoretical Discussion

The effects of the NBLSS on labor supply have been discussed among people in relation to the benefit system. A number of researchers affirm that some beneficiaries under the NBLSS avoid working or provide the minimal work to maintain the status as a beneficiary (Moffit, 1983; Yoo & Kim, 2002; Lee, 2004; Kang, 2004; Kim, 2004, Koo, 2005; Park, 2005; Kim, 2008). For example, it has been pointed that the monetary work incentive under the NBLSS, including the integrated benefit system under which the criteria for cash benefit of the supplementary benefit system is connected to the benefit in cash and the benefit in kind, becomes a critical obstacle for work activities and participation in self-support of workable beneficiaries, or efforts to escape from benefits (Koo, 2005).

The rules of the supplementary benefits are prescribed in Article 3-1 of the National Basic Livelihood Security Act as follows:

“The benefits pursuant to this Act will be, in principle, supplemented and developed, provided that a beneficiary makes utmost efforts to maintain

and improve his or her own life by utilizing own income, property, work ability, etc.” (Article 3-1 of the National Basic Livelihood Security Act)

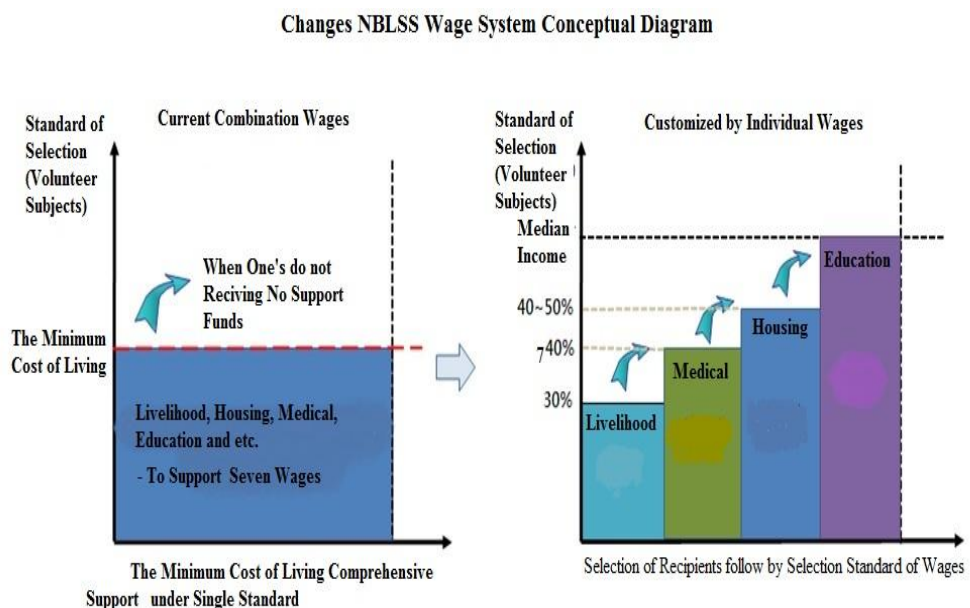
Under the system in which the sum of the approved income of a beneficiary and the 4 basic benefits for livelihood, residence, healthcare and education exceeds the minimum living expenses, the difference of the minimum living expenses per household from the approved income is paid; therefore, a household having higher approved income receives less benefits that much. Accordingly, the rule of supplementary benefit brings about the increase of non-labor income, so such an effect of income tends to hinder the beneficiaries under the public assistance policy from participating in economic activities (Thomas et. al., 2012). At present, the benefits under the NBLSS are provided as an integrated benefit system. A household of which approved income is less than the minimum living expenses for the number of its members is designated as a household beneficiary. In such a case, the household gets eligible for the 7 major benefits for livelihood, residence, healthcare, education, self-support, etc. (See Chapter 2).

This integrated benefit system is connected to the criteria of eligibility for benefits in cash or in kind. It means a ‘all or nothing’ system because one loses his or her eligibility for benefits in cash, he or she becomes to lose the eligibility for benefits in kind also. Thus, under the current integrated benefit system, people in poverty as non-beneficiaries, and next upper class having specific needs such as residence, healthcare, education, etc., who are eligible for special benefits, could not



receive any benefit, so there may be a wide range of dead angle (Yoon, 2007). Therefore, in October, 2014, a ‘special benefit welfare system’ in which different levels of individual needs are applied will be launched for the people in the dead angle, who are eligible for special benefits (See the figure below).

<Figure 3> Changes the NBLSS Wage System Conceptual Diagram



(Source: Ministry Health & Welfare)

The ‘all or nothing’ benefit system under the current NBLSS based on the approved income by combining the integrated benefit system and the supplementary benefit system can provide the beneficiary with the incentive to decrease labor supply or hide economic activities or earned income in order to maintain the

eligibility for benefits rather than escape from poverty through labor. In other words, if one's approved income exceeds the minimum living expenses, he or she loses the eligibility for livelihood benefit and the eligibility for all other major benefits for healthcare, education, residence, self-support, etc., so eventually his or her actual income becomes much lower than that before his or her escape from the benefits. Therefore, there may be a phenomenon that beneficiaries under the NBLSS try to decrease labor at a certain point of earned income increased, so that their earned income may not exceed the criteria of eligibility for benefits (Moffitt, 2002).

In this study, it is intended to verify if this theory is also applied to the special beneficiaries receiving more benefits because of being applicable to special benefits. Moreover, the benefit scheme under the NBLSS operated by combining the supplementary benefit system and the integrated benefit system guarantees the minimal income of beneficiaries; therefore, it is not helpful for them to escape from benefits, and rather discourages their incentive to escape from benefits. It means that the benefit providing under the NBLSS results in suppressing the will for labor although it is a reasonable choice made by considering the benefit amount and the advantages of beneficiaries.

## 1) Work Incentive

Work incentive has been one of the inevitable tasks in public assistance since the Speenhamland system started to protect workable workers in 1795. Most of advanced countries of capitalism secure a certain level of working poor's life with

public assistance or similar public assistance programs of securing the income. On this spot, beneficiaries of public assistance choose not to work, which is a rational choice to enhance their utility. However, if the security level is low, beneficiaries become to work because generally leisure is normal goods.

On the other hand, if beneficiaries work in a national basic livelihood protection program (supplementary benefit) that do not have a work incentive system, total amount of earned income decreases due to the supplementary benefit. Eventually, in case of the workable beneficiaries for public assistance, they have weaker work incentive from both negative (-) income effect and substitution effect of the pure national basic livelihood protection program (supplementary benefit). For this reason, the work incentive is a major goal of public assistance system.

Economic fluctuation model (Blank & Blinder, 1986), cultural poverty theory (Banfield, 1968; Rosenbaum & Popkin, 1991; Spicker, 1993), and rational choice theory (Moffitt, 1992; Edin & Lein, 1997) are explained as the work incentive in the public assistance beneficiaries theories (Park, 2005), in other words labor supply. Among these, the theory of supporting the possibility of affecting the policy directly to strengthen work incentive is the rational choice theory. The rational choice model means that workers decide entry into labor market with working hours when the condition of utility is maximized to themselves through benefits or work so as to pay for the costs as unified concept of utility. If the benefit from origin status work is monetary compensation, the cost is loss of leisure. Thus, it is possible to reach a logical argument to strengthen beneficiaries' work incentive

by encouraging beneficiaries to work.

However, Ellwood (1994) points out that it is hard to understand the behaviors of beneficiaries in the viewpoint of reasonable choice because beneficiaries tend to have psychological disorder such as helplessness in the course of family dissolution and property ruin due to long life in poverty. As afore-said, if benefit providing under the NBLSS is correlated to the tendency of work avoidance influencing the earned income and to unobserved variables such as psychological disorder, the variables of benefits under this system has endogeneity (Ahn, 2011).

A <Table 7> is the example of the work incentive. If you see employment rate of between capacity to work beneficiary household and capacity to work non-beneficiary poor-household, the non-beneficiary's employment rate is doubled than the beneficiary's employment rate. It means beneficiary tend to be avoid work condition.

<Table 7> Comparative characteristic and work condition beneficiary-household and non-beneficiary-household

Division		CWRH	CWNP	CWNH
Characteristic House-hold	House members (person)	2.7	2.2	3.4
	Age of house-head (age)	48.8	46.1	44.5
	Female house-head percentage (%)	41.0	38.4	9.5
	Percentage of under high-school graduate house-head (%)	47.9	35.6	13.0
House-head work condition	Employment rate (%) <sup>13</sup>	36.6	65.2	94.1
	Work income (KRW/yr) <sup>14</sup>	569.5	836.1	3679.5

(Source: Korea Institute for Health and Social Affairs. Seoul National University Social Welfare Research Center, Analysis the Korean Welfare Panel Study. Quote from ‘Basic Livelihood Security System Overall Evaluation’)

\* Capacity to work beneficiary-household = CWRH

\* Capacity to work non-beneficiary poor-household = CWNP

\* Capacity to work non-poor-household = CWNH

As it is shown that innovation of the social security system strengthens the relationship with the labor market policy, western welfare countries have adopted the ‘work-related welfare policy aiming at promoting entry of beneficiaries with

<sup>13</sup> Employment rate calculated as whole household-head against all income employees, employer, owner-operator, work as non-paid family business.

<sup>14</sup> Work income calculated as add all work income, business income, and agriculture livestock · fishery income of household-head.

work ability into the labor market, and making them escape from poverty. Welfare innovationists point out the work disincentive of welfare system mentioning that welfare beneficiaries tend not to get a job but to keep their status of beneficiary because of no enough difference between the welfare benefit level of beneficiaries and the income level of low-incomers. They stay in the low-income status since they do not feel any necessity of extending working hours to increase their income in the situation of high marginal effective tax rate. It means that if the income earned by extended working hours is set off by a tax, low-incomers do not feel necessity to work harder, which makes them difficult to escape from poverty.

To eliminate such a pit of poverty, the tax system for low-income workers is required to be innovated. Prior to the study through literature, it is to review the effect of work incentive from this system. It is to compare the effect of reduced labor supply by supplementary benefit with the effect of work incentive from this system. The figure below shows the problems of this system, which have been argued up to date; those are supplementary benefit system and integrated benefit system.

Assuming that a person (p) is a beneficiary of the NBLSS, it can be observed if work incentive is motivated, which is the effect of reduced labor supply of the supplementary benefits, when income deduction is applied to the supplementary benefits of the person (p).

With leisure and consumption, if a person (p) maximizes utility, the person's utility function and budget limit are as below:

$$PC = N + W (T - L)$$

\* N: Nonwage income, W: Wage rate per hour,  
P: Price of consumer goods, T: Total workable time

Where, if T-L is converted into H, the person's utility function is as below:

$$H = T - L$$

Y in the following equation is income, which equals to the sum of nonwage income including the income by private transfer from acquaintances and the work income (WH).

$$Y = N + WH$$

Due to the characteristics of supplementary benefits from public assistance, the livelihood benefits (B) which a person can receive is the balance that the nonwage income and the work income (WH) are subtracted from the minimum livelihood expenses (G).

$$B = G - (WH = N)$$

The more work the income (WH) of a person increases, the more the benefits (B) in cash decreases.

The afore-mentioned theory is seen in the following figure.

In the horizontal axis, the work time at the point showing the personal work time is zero (0); and when it goes to the left, the work time increases. The vertical axis shows the income; and AB section is the nonwage income which is the income for maintenance of livelihood even when the work time is 0. BC section is B which is the benefit in cash received by a person. Accordingly, AC section is G which is G which is the minimum livelihood expenses. When the slope of the budget limit line BJ is  $-W$ , the slope of CE1 in AE0 section becomes 0(zero).

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point A where the work income increased, it becomes G-YD1 which is less than that at the point A.

The equation is expressed as below.

$$G-N > G-YD1$$

The above result of  $G-N > G-YD1$  shows that it is common that nobody wants to increase the work time under the current system. It is being pointed that there is a problem of work incentive because the beneficiaries of the NBLSS of which purposes are to guarantee the minimum livelihood and to promote self-support tend to avoid working to maintain the status of beneficiary or provide minimal labor to maintain the eligibility for benefits.

Actually, It has been argued that beneficiaries are getting more dependent on welfare not to escape from the status of beneficiary and their work incentive decline in the supplementary benefit system, under which if the approved income level is below the minimum livelihood expenses, the difference is paid, and the integrated (all or nothing) system, under which if one satisfies the conditions of eligibility for benefits, he is paid all of special benefits, but if he is disqualified, he is paid nothing. Also, low level of benefit and big blind spot decrease the work incentive of special beneficiaries.

## 2. Literature Review

There are diverse studies on the NBLSS; however, this study focuses on the hypothesis that the NBLSS will discourage the work incentive of beneficiaries. Yoo & Kim (2002) presented a simple simulation of the path that the redistribution policy affects labor supply, and concluded that labor supply from beneficiary households decreases, on the basis of presumed flexibility of wage and income related to labor supply.

Kang (2004) presumed the effect of labor supply of workable people in relative poverty class between 15 years and 65 years, whose household income accounts for 60% of median income, referring to the datum of survey on the self-support program for low-income class, which was conducted by Korea Institute for Health and Social Affairs nationwide in 2002. As a result of analysis, it appeared that when the income from public transfer increased one million Korean won per annum, the labor hours of male householder and female householder decrease 81.6 hours (4.06%) and 16.6 hours (0.76%) respectively, and the flexibility of labor supply is very low compared to unearned income. The used datum was a transverse section datum containing only information of a certain time, it was not an analysis on the change of labor supply pattern, which appears in the same beneficiaries with changed basic security benefit level at time intervals, but an analysis by the comparison of the labor supply level of diverse classes on the basic security benefit

level at a certain time; therefore, there is a limit to directly relate the benefit level and the labor supply.

In the study of Lee (2004) where the datum of Korea Labor Panel was used, it was empirically analyzed through a difference-in-difference model by setting the low-educated people of workable households as the program group under direct influence of the NBLSS, and the members of non-workable households as the control group. The result of analysis showed that the NBLSS doesn't have a significant influence on employment and working hours according to statistics. There was no significant influence statistically because (i) the limitation is big in the property and the person under obligation to support which are the criteria for beneficiaries under the NBLSS of South Korea, and in discretionary determination by social welfare workers; (ii) the NBLSS requires workable beneficiaries to do labor activities subject to conditional benefit regulations; and (iii) evaluation on the NBLSS in such study was made 2 years after it was launched, so it was too short to make changes in the policy.

With the data of survey by Korea Labor Panel, Byun (2005) analyzed the influence of the NBLSS on labor supply of workable people through a difference-in-difference model of using the variables before and after its implementation. The result showed that the demand variable affects the economic activities of workable beneficiaries, together with the NBLSS and the supply variable of labor market. There was decrease of 1.5 hours in labor supply of low-educated workable

beneficiaries; however, there was no statistical significance in the model of gender and spouse.

This study is different from the study by Lee (2004), by analyzing the subject group with different models according to education level, gender, spouse, etc. with consideration of interaction term of group variable and time variable, and demand variables including unemployment rate by areas, average wage by jobs, etc.

In the study by Koo (2005), it appeared that employment of beneficiaries is possible to increase as a result of research on the employment rate under the NBLSS with participation in economic activity as a dependant variable. However, in the employment pattern, it was pointed out that unstable employment structure with the majority of temporary part-time workers possibly has a negative effect on labor hours. For this study, work incentive was analyzed indirectly by the use of the secondary statistical data published by the Ministry of Health and Welfare.

According to Kim (2008), the rate of participation by the group under the policy decreased 0.86% and the labor hours decreased 1.6 hours per week in 2004 compared to those in 2003, which are not significant statistically; therefore, it should not be considered that the NBLSS has negative effects. In this study, with reference to Korea Labor Panel, difference-in-difference analysis was made with the subject group of householders under the NBLSS and the control group of non-beneficiary householders, which was formed by the use of property score matching.

Park and Choi (2011), with reference to Korea Welfare Panel, divided the subjects into new beneficiary households and existing beneficiary households, and

examined the effects of the NBLSS on the earned income, income from private transfer, property income and household income of the beneficiaries under the NBLSS, by using the difference-in-difference analysis through property score matching. As a result of comparison of the years 2005 and 2007, new beneficiary households had an effect of decrease of 6.66 million Korean won in their labor. Existing beneficiary households had an effect of decrease of 3.02 million Korean won; however, the subjects analyzed were both of workable households and non-workable households, and especially, a number of elders were included, so the negative labor effect of new beneficiary households was exaggerated.

As a result of having measured the effect of labor supply with the rate of participation in economic activities, employment rate, annual working days and earned income, Park and Kim (2011) found that the rate of participation in economic activities and the employment rate are lower in the beneficiary group than in the non-beneficiary group; also the working days and the earned income were less in the beneficiary group. For this study with reference to Korea Welfare Panel, difference-in-difference analysis through property score matching was used, in which the subject group was divided into the new beneficiary households and the existing beneficiary households.

Out of the precedent studies by Lee (2004); Byun (2005); Kim (2008); Park and Choi (2011); and Park and Kim (2011), there was no study on the comparison between the special beneficiary group and the regular beneficiary group

on the basis of work ability, educational background and gender when the control group was set. Especially, in the studies by Lee (2004) and Byun (2005), it is hard to estimate the effect of the NBLSS on labor supply because of failure to control the heterogeneity from the subject group. Such a weak feasibility of cause-and-effect relation was verified through property score matching by which the control group similar to the subject group of actual beneficiaries could be formed.

However, with coming benefit system for special beneficiaries by levels, which will be introduced in 2014, it is intended in this study to analyze the work incentive related to work ability, which has been evaluated in various aspects with every attempt for system improvement, and the work incentive related to beneficiary type, which has never been discussed except for labor supply. Also, this study of using the transverse section data differently from the previous studies of having used longitudinal section data contains information at a certain time. However, this study is intended to verify the work incentive of beneficiaries of different benefit types (special & regular) at a certain time, with the concept that the work incentive pattern is more influenced by personal properties of each beneficiary rather than by continuously influenced by the NBLSS because the work incentive pattern of a subject beneficiary, which appear with the changes of benefit level with time intervals is not a factor of maturation with time passed (Ellwood, 1994).

## Chapter 4. Hypotheses and Research Design

### 1. Hypotheses

The attempt to find any changes of work incentive of the two groups (special beneficiaries & regular beneficiaries) according to the benefit types of the NBLSS is to study and verify prior to the implementation of the ‘Special Benefit Welfare System’ around October, 2014 if there is no problem in the benefit system under the NBLSS which is an integrated benefit system. The hypotheses of this study in verifying it are as below:

H<sub>1</sub>: Regular beneficiaries will have a negative influence on the work incentive than special beneficiaries will.

This is the concept that the benefit for special beneficiary group guarantees the plus amount to the benefit for regular beneficiary group, in which the possibility of their lower work incentive than that of the beneficiaries receiving the livelihood benefit only cannot be excluded. If the assumption that the work incentive of special

beneficiaries is lower than that of regular beneficiaries is true, the new benefit system to be effective in 2014 will lower the work incentive of special beneficiaries and guarantee the minimum livelihood which is the objective of the NBLSS, but will fail to lead self-support and increase the reliance on welfare benefits due to guarantee of the minimum livelihood; and eventually will be criticized again. Therefore, this study is to review the effect on the change of benefit system.

## 2. Research Design

### 2.1 Analysis Data and Study Object

This study utilized the 7<sup>th</sup> year edition of the Korea Welfare Panel in analyzing the beneficiaries of the NBLSS (National Basic Livelihood Security System), including both regular beneficiaries and special beneficiaries. The reason for using this data is that, above all, this survey data are based on all over the country. It means the data represents all the Koreans who get benefits from the system. Other data may include bias because of being directly surveyed with beneficiaries, and beneficiaries are sometimes a part of the subject groups.

Second, this survey of Korea Welfare Panel covers a bigger size of the beneficiaries group than that of the Korea Labor Panel. Thus, this panel data are usually used as the representative in Korea. The reason if its bigger size is that it has

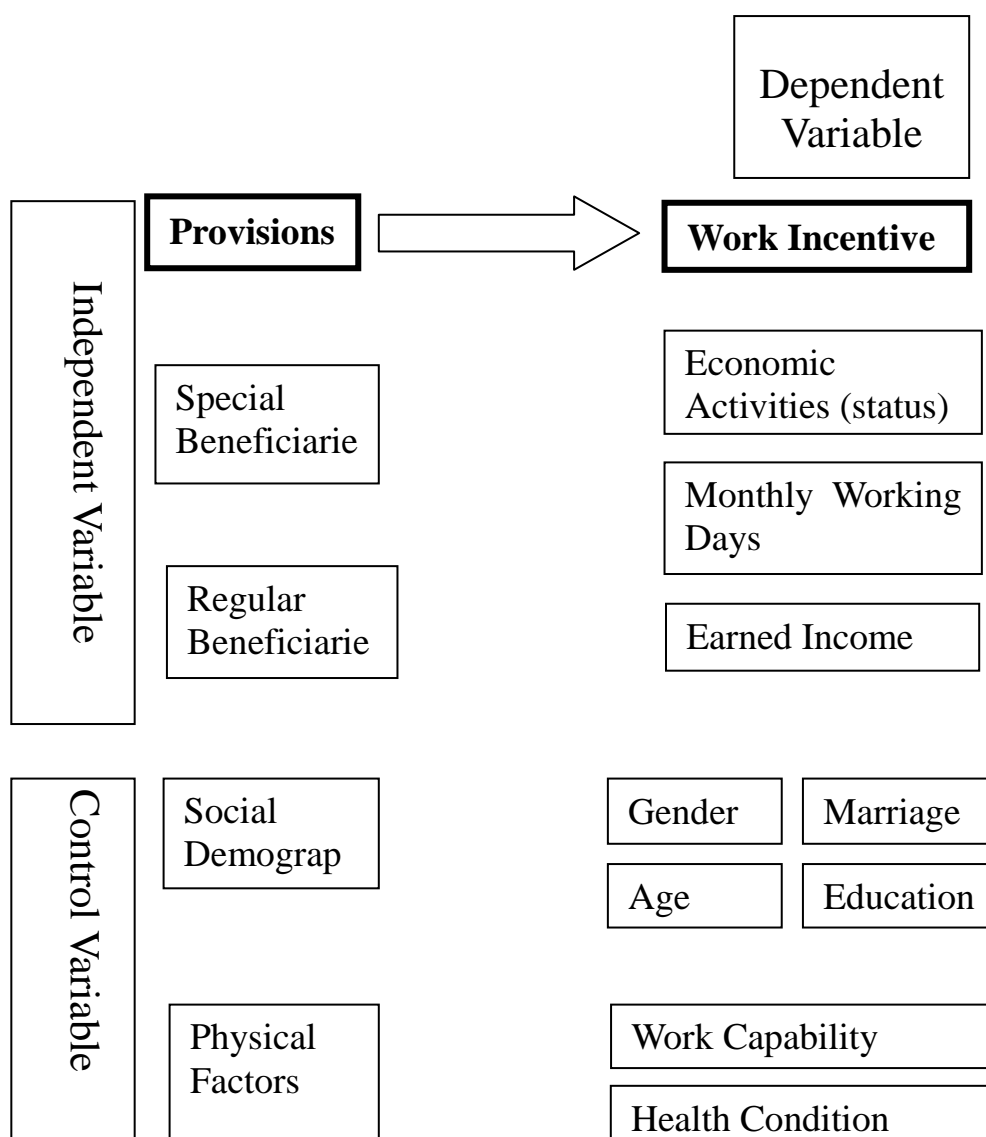


enlarged sampling of low-income group to find the needs for welfare and the conditions of low-income group. The welfare department should secure enough cases to analyze because they are not active in the NBLSS as known. Not only a number of cases or a bigger sample size, the Korea Welfare Panel but also has basic characteristic variables due to various questions in the questionnaire than in the Korea Labor Panel. It is possible to do an in-depth analysis of the NBLSS and welfare needs of respondents. Especially, it enables to utilize mental and emotional variables such as depression, self-esteem, and subjective view of welfare department.

Third, the Korea Welfare Panel researched with various variables are fully searched compared with medical provision data of National Health Insurance Service, which Kang used (Kang et al., 2006). However, it is impossible to do an in-depth analysis, because of the characteristics of administrative data system; and other variables than basic demographical characteristics are not searched. As a result, this panel data is suitable for this study to find the effect of work incentive between special beneficiaries' and regular beneficiaries' needs more detailed and various variables.

## 2.2 Analysis Model

<Figure 4> Provision of the National Basic Livelihood Security System effect on Work Incentive



## 2.3 Define Variable

### 2.3.1 Independent variable

In considering this study, it may be useful to start out by examining how the independent variable provisions are subdivided into regular beneficiaries and special beneficiaries. Most researches are focused on their independent variables as workable beneficiaries or non-workable beneficiaries, newly provided benefits or continuously provided benefits, and simply provided benefits or not (Yoo & Kim, 2000; Lee, 2004; Byun, 2005; Park & Choi, 2011; Park & Kim, 2011; Moffitt, 2002; Gary & Ryan, 2005). For the reason, this study was made by setting independent variables similarly to general category, but differently from specific category. For the sake of a new benefit provision scheme in the NBLSS, which will be enforced gradually from October, 2014, special beneficiaries are getting bigger portion.

However, none of studies has focused on special beneficiaries, so this study sets out to examine how to draw the work incentive of special beneficiaries. First, as afore-mentioned that the provisions were subdivided into regular beneficiaries and special beneficiaries, these two beneficiaries were measured in a scale of 1 to 5. The scale No. 1 means the case of having never received any benefit under the NBLSS, and No. 2 means the case of having received some benefit under the NBLSS continuously even before the year 2011 (the year 2011 belong to the period of time being under survey). The scale No. 3 is the case of having received some benefit under the NBLSS from the beginning to the end of the year 2011, which means the duration of having received some benefit is one year. The scale No.

4 is the case of having received before the year 2011, but not anymore, which means they have never received some benefit under the NBLSS. The last scale No. 5 is the case of having received any before the year 2011, but not anymore, which means drop from the benefit in the NBLSS.

<Table 8> the National Basic Livelihood Security System Frequency Analysis

Division	Frequency	Percent (%)
0 (Null)	78	1.4
1	5042	88.0
2	554	9.7
3	22	0.4
4	35	0.6
5	1	.0
Total	5732	100.0

(Standard on Dec. 31. 2011)

In summary, in <Table 8>, pertinent beneficiaries are shown in the scale Nos. 2 and 3. The total numbers of beneficiaries are 576, original non-receivers are 5,042, and people who have dropped within 1year are 36, among the total number of 5,732.

In <Table 9>, the subjects are classified into regular beneficiaries and special beneficiaries among the 576 NBLSS beneficiaries. Before the frequency analysis in <Table 9>, the subjects of Nos. 1 to 9 were divided into regular beneficiaries and special beneficiaries. The scale Nos. 1, 2, 3, 4, and 9 are defined

as regular beneficiaries, which means 431 people are regular beneficiaries. Others of the scale Nos. from 5 to 8 are defined as special beneficiaries. Only 145 people among the total beneficiaries, being 25.2%, belong to special beneficiaries.

<Table 9> Regular · Special Beneficiaries Frequency Analysis

Division	Frequency	Percent (%)
1	79	13.7
2	220	38.2
3	45	7.8
4	79	13.7
5	59	10.2
6	5	0.9
7	80	13.9
8	1	0.2
9	8	1.4
Total	576	100.0

(Standard on Dec. 31. 2011)

5,042 people do not receive any benefit from the NBLSS; in other words, 88% of total have not received any benefit. Only 19.7% of the total are receiving or used to receive it. The sample size of an independent variable in this study is 576 people (10.1% of total number). The total 576 people were subdivided into regular beneficiaries that are 431 people and special beneficiaries that are 145 people. This system's regular beneficiaries among the total beneficiaries account for 74.8% with 431 people and the special beneficiaries account for only 25.2% with 145 people.

### 2.3.2 Dependent variable

In defining three variables that made conception of work incentive may be useful to begin with the suggestion about how dependent variables would work on this study. In this part, analysis on the frequency for dependent variables was made for conception of work incentive result in this study. In previous studies related to this study, dependent variables were set, such as economic activities status, working days, and earned income (Lee, 2004; Park & Kim, 2011; Byun, 2005, Park, 2005; Moffitt, 2002; Gary & Ryan, 2005). Park & Kim stated the status of economic activities including the employment rate, and even side-work activities. Considering the NBLSS beneficiaries are mostly elders together with the characteristics of households, they are rarely employed and most of them are temporary or daily-base workers or even side-workers who likely attempt to conceal their economic activities status or earn income, because they don't want to move to non-beneficiaries status.

#### 2.3.2.1 Economic Activities (status)

To carry on the above discussion here, one of the dependent variables is economic activity status which is measured with the nominal scale as "Yes, or No". In detail, the entry "Yes" restated a form with entry No. 1 to No. 6, where entry No. 1 is a regular worker, entry No. 2 is a temporal worker, entry No. 3 is daily-base worker, entry No. 4 is self-supporter, entry No. 5 is an employer, and entry No. 6 is an

owner. The others are defined as entry “No”, and those entries restated unpaid family worker as entry No. 7, the unemployed who try to get a job very strongly within last 4 weeks as entry No. 8, and no active population in economical aspects as entry No. 9.

<Table 10> Economic Activities (status) Frequency Analysis

Division	Frequency	Percent (%)
0 (Null)	514	-
3	44	71.0
4	16	25.8
9	2	3.2
Total	62	100.0

(Standard on Dec. 31. 2011)

Since a missing divisions is more than half, <Table 11> has to be noted that several omitted divisions were not responded, being about 89.2% of the total number. In other words, here there is no regular workers, no temporal workers, no employers, no owners, no unpaid family workers, and no unemployed people according to the above entry numbers that were above-explained. People who have responded were only daily-base worker, self-supporter, and population without economic activities. Among those respondents, only 60 people were in economic activities. It is 86.8%.

#### 2.3.2.2 Monthly Working Days

The dependent variables were subdivided into three variables among the variable

‘work incentive’. The second variable is working days measured on a monthly basis.

Among the variable ‘monthly working days’, the three entry variables were chosen:

Entry ‘regular worker’; entry ‘temporal worker and daily-base worker’; and entry

‘employer and owner’.

<Table 11> Working Days Frequency Analysis

Divisi on	0	1	2	3	4	5	6	7	8	9	10	11	12	Tota l
F.1	568	-	-	-	-	-	1	-	-	-	-	-	7	576
F.2	434	5	6	7	8	3	7	7	9	8	4	5	73	576
F.3	4,971	1	-	-	-	-	2	-	-	-	1	-	22	576
<b>Total</b>	-	6	6	7	8	3	10	7	9	8	5	5	102	<b>576</b>
P.1	98.6	-	-	-	-	-	0.2	-	-	-	-	-	1.2	100
P.2	75.3	0.9	1.0	1.2	1.4	0.5	1.2	1.2	1.6	1.4	0.7	0.9	12. 7	100
P.3	95.5	0.2	-	-	-	-	-	0.3	-	-	-	0.2	3.8	100

(Standard on Dec. 31. 2011)

\*F.1 (Frequency 1) = regular worker, F.2 (Frequency 2) = temporal worker · day-worker, F.3 (Frequency 3) = employer · own

This study includes the variables as set at first, even though either employer or owner of beneficiaries was not found, and there is the characteristic of the NBLSS beneficiaries of changing answers. It is measured on a monthly basis as



noted earlier, which means the entry set as No. 1 to 12. It is very simple to set the divisions; for example, a beneficiary working for only one month is set as No. 1, No. 2 for two months, No. 3 for three months, which goes on to twelve months. Again, all the workers chosen from the data are added as one variable called ‘Working Days’.

#### 2.3.2.3 Earned Income

The last part of the dependent variables is ‘earned income’ that is classified by Luxembourg Income Study (LIS), in which Yoo and Kim (2003) used the LIS method. Earned income, business & sideline income, and property income are all affiliated with the primary income, and addition income by private transfer becomes market income as seen below. Additionally, to calculate ordinary income, social insurance provision and public transfer income are added to the market income, and it becomes the gross income under the LIS standard. See <Table 12> for more details.

<Table 12> Income Classify

National Statistical Office				OECD					LIS
Income	Non-Ordinary Income	Congratulations& Condolences Incomes, Waste Sales Incomes, etc.							
	Ordinary Income	Earned Income		Wage and Salary Income	Primary Income	Market Income	Gross Income	Disposable Income	Disposable Income
		Business & Sideline Income		Gross Self-Employment Income					
		Property Tax		Realized Property Income					
		Transfer Income	Private	Occupational Pensions & etc. Private Cash Income					
			Public	Social Insurance &Social Assistance Provision					

E x p e n d i t u r e	Non-Spending Expenditure	Public Pensions	Social Security Expenses			
		Social Insurance				
		Taxes	Income Taxes			
			Property Tax, Composite lad Tax, Automobile Tax, License Tax, etc.			
		Other Non-Spending Expenditure				
	Spending Expenditure					

(Source: Yoo, Gyeongjoon& Kim, Dae-II, Comparative International Income Destitution and Poverty, Korea Development Institute, 2003.)

The last variable among the dependent variables is earned income. According to the classification by the Luxembourg Income Study, this variable is calculated by adding the gross income of regular worker, temporal worker, and daily-base worker. The divisions in <Table 13> shows the range of variables from KRW 0 to KRW 55,485, and the unit of this variable is ten thousand Korean won (KRW 10,000).

<Table 13> Earned Income Frequency Analysis

<b>Division</b>	<b>Average</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Total</b>
Frequency 1	23.90	336	3,174	13,767
Frequency 2	170.60	12	3,144	98,266
Percent 1	-	0.2	0.2	100.0
Percent 2	-	0.2	0.2	100.0

(Standard on Dec. 31. 2011)

Moreover, the frequency 1 and 2 in the division section indicate regular worker and temporal, daily-base worker. The average indicates the number of people who are pertinent in each section of either regular worker, temporal worker, or daily-base worker. According to <Table 13>, regular workers take a much smaller portion than temporal or daily-base workers, but the minimum income of regular worker is much higher than other groups as expected. Ostensibly, temporal or daily-base worker seems to earn much income among the total number as shown

in <Table 13>, being. Yet, if we look into <Table 13>, the number of people as regular worker was much bigger than others. In other words, the NBLSS beneficiaries are more likely to be in temporal or daily-base worker condition. This implies that the NBLSS has to be more firm in work-welfare.

### 2.3.3Control variable

The factors which can affect the work incentive are largely classified into socio-demographic factors (gender, age, education, etc.) and human resource factors (work ability, health, etc.). In the case of gender, males generally have higher earned income and participation in economic activities. In this study, males are set as 1, and females as 2. Since there are many elders due to the characteristic of beneficiaries under the NBLSS, the age was set from 20 to 90.

In general, when the age increases, economic activities and earned income increase; however, if there are many elders, they may decrease. As for the marital status, people with spouse may have stronger work incentive because of responsibility for managing the home economy.

Single beneficiary is set as 0, and married beneficiary as 1. In the aspect of educational background, similarly to the age, beneficiaries with high educational background may have more active participation in economic activities and higher earned income, and there may be a high possibility of many beneficiaries with low educational background due to the characteristic of beneficiaries under this NBLSS,

although the result should be obtained.

Regarding the work ability, workable beneficiary was set as 1 and non-workable beneficiary as 0 according to the index in Korea Welfare Panel. With the assumption that healthier beneficiary would have higher work incentive, beneficiary having good health condition was set as 1 and beneficiary having bad health condition was set as 5, in 5-scale measurement.

<Table14> Variables Measurement

Categorization		Variables	Measurement
<b>Dependent Variable (Work Incentive)</b>		Economic Activities (status)	Yes(1), No(0)
		Monthly Working Days      Yearly Working Days	(13 scale measurement) 0 ~ 12 = Never ~ 12 Months
		Earned Income	Regular workers + Temporal workers
<b>Independent Variable</b>		Beneficiaries	Special Beneficiaries = 1 Regular Beneficiaries = 2
<b>Control Variable</b>	<b>Social Demography</b>	Gender	Male = 1, Female = 2
		Age	Highest-1984=20 1983-1974 = 30 1973-1964 = 40 1963-1954 = 50 1953-1944 = 60 1943-1934 = 70 1933-1924 = 80 1923-lowest = 90
		Marriage status	Married = 1, Single = 0
		Education	No education(1) =1 Elementary(2,3) = 2 Mid-high(4) = 3 High(5) = 4 Community college(6) = 5 College(7) ~ higher = 6
	<b>Physical Factors</b>	Work capability	Yes (1), No(0)
		Health condition	(5 scale measurement) Very healthy = 1 Healthy = 2 Medium = 3 Not healthy = 4 Bad = 5

<Table 15> Demographic Frequency Analysis

Item				Frequency	Percent (%)
Control Variable	Sociology of population factors	Gender	Male	266	46.2
			Female	310	53.8
		Age	20-29	2	.3
			30-39	16	2.8
			40-49	75	13.0
			50-59	112	19.4
			60-69	99	17.2
			70-79	175	30.4
			80-89	82	14.2
			90-up	15	2.6
		Marriage	Married	151	26.2
			Single	425	73.8
		Education	No education	136	23.6
			Elementary	198	34.4
			Middle	98	17.0
			High	108	18.8
			Community	18	3.1
			College - up	18	3.1
	Physical factors	Work capability	Work	411	71.4
			No work	165	28.6
		Health condition	Very healthy	13	2.3
			Healthy	119	20.7
			Medium	130	22.6
			Not Healthy	284	49.3
			Bad	30	5.2

(Standard on Dec. 31. 2011)



## 2.4 Analysis Methods

This study utilized year of 2012 Korean Welfare Panel Data as described above, and re-coding the data to analysis with multiple line regression, and logistic regression. For this PAASW 18.0 has utilized.

## Chapter 5. Analysis and Finding

Are special beneficiaries of the NBLSS are negative in work incentive than regular beneficiaries? Table 16, Table 17, and Table 18 show the results of analysis that special beneficiaries of the NBLSS are regressed (using both multiple regression and logistic regression) against several variables. The analysis presented in Table 16, Table 17, and Table 18 offers a preliminary understanding of the relationship between beneficiaries and work incentive (more details in Appendix).

<Table 16> Special Beneficiaries effect on Economic Activities (Status)

			Dependent Variable		
			Work Incentive		
			Economic Activities (status)		
			B	S.E.	Sig.
Independent Variable	Beneficiaries	Special Provision	.441	.315	.102*
Control Variables	Social Demography Factors	Gender	.325	.339	.338
		Age	-.060	.014	.000***
		Marriage	-.273	.369	.460
		Education	-.020	.145	.889
	Physical Factors	Work Capability	-18.776	29997.929	.995
		Health condition	-.062	.156	.692
Constant			20.352	29997.929	.995

\*\*\*p<0.01, \*\*p<0.05, \*P<0.1

(-2 Log likelihood : 307.308)

<Table 16> provides the results of hypothesis test that special beneficiaries are less likely to be in economic activities status than regular beneficiaries, and it offers a significant positive relationship between special beneficiaries and economic activities status as Beta: 0.441, sig.:0.102, and  $P < 0.1$ . Special beneficiaries are 0.441 times more in economic activities status than regular beneficiaries at the slightly 90% confident level. In other words, special beneficiaries are probability to be in economic activities status 0.441 times higher than regular beneficiaries. As afore-said, the model also shows that younger special beneficiaries are 0.06 times more likely to be in economic activities status than older special beneficiaries. For example, special beneficiaries in 20's have 0.06 times of chance to be in economic activities status than special beneficiaries in 30's.

In this model, special beneficiaries have a higher possibility of doing economic activities than regular beneficiaries do, which is contrary to the hypothesis of this study. Especially, younger beneficiaries are more highly possible to do economic activities. Economic activity is one of the variables showing the work incentive, and it is interpreted that special beneficiaries have more positive influence on the work incentive than regular beneficiaries do.

<Table 17> shows the relationship between special beneficiaries and monthly working days. Special beneficiaries are more likely to increase their working days 0.966<sup>15</sup> (almost one month) times more than regular beneficiaries as

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<sup>15</sup> A numeric 1.0 defined as a month, due to a unit of working day variable is set in month.

Beta: 0.966, sig.:0.015, and  $P < 0.05$ . It is clearly displayed in <Table 17> that the special beneficiaries are influenced by working days in a positive direction. In other words, when one unit of special beneficiaries increases, working days increase about a month at the same time, but working days for regular beneficiaries decrease. It is explained by adjusted R square 0.307 that estimated regression model data 30% (see Appendix for summary of model for such value of  $R^2$ ) with 90% confidence level. It is tentatively concluded that working days affect special beneficiaries to have more likely to receive benefits.

<Table 17> Special Beneficiaries effect on Monthly Working Days

			Dependent Variable		
			Work Incentive		
			Monthly Working Days		
			B	$\beta$	Sig
Constant			16.774		.000
Independent Variable ( Provision)		Special Beneficiaries	.966	.085	.015**
Control Variables	Social Demography Factors	Gender	1.402	.142	.001***
		Age	-.128	-.377	.000
		Marriage	-1.648	-.147	.000
		Education	.093	.024	.569
	Physical Factors	Work Capability	-1.831	-.168	.000
		Health condition	-.974	-.185	.000

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $P < 0.1$

From this result, male, younger, single, highly-educated, non-workable, unhealthy beneficiaries are more likely to increase the unit of their working days as well.

To supplement this analysis, males are likely to increase his work more than females by 1.429 times per unit of increasing special beneficiaries, which means males likely increase working days of about 6 weeks more than females among the special beneficiaries as Beta: 1.429, sig.:0.001, and  $P < 0.01$ . However, older beneficiaries likely work about a week less than younger beneficiaries. For example, special beneficiaries in 30's are possible to work a week more than special beneficiaries in 20's. Additionally the variable 'age' is the most highly effective variable on working days among five variables such as gender, age, marriage, work ability, and health condition. A single special beneficiary works 7 weeks more than married special beneficiaries as Beta: -1.648, sig.:0.000, and  $P < 0.01$ . The variable 'marriage' is similarly effective on working day to the variable 'gender'. It means that the variable 'gender' is least influential except the variable 'education level' that was removed.

Curiously the result of work ability in working days appeared to be negative. In other words, the variable 'work capability' appeared to less likely work about 8 weeks compared with special beneficiaries without work ability as Beta: -1.831, sig.:0.000, and  $P < 0.01$ . It is explained by the provided benefit method schemes in the NBLSS that are supplementary benefit scheme and method of total payment. As mentioned above, these benefit provision methods was proved to reduce the work incentive of beneficiaries with work ability.

Work incentive decreased only in regular beneficiaries not in special beneficiaries because of the total payment method of provision benefit so-

called ‘all or nothing’. To receive special benefits, applicants also have to pass the general examinations under the NBLSS. As stated in the total payment method of benefit provision, beneficiaries have to keep their condition to be eligible to receive benefits by earning a certain amount of money, which shall not exceed the limit to be eligible. It is possibly explained that the benefit provision method has a tendency to make special beneficiary not work more than certain days; in other words, the method tends to not to exceed a certain amount of income to keep his/her status for benefits in the NBLSS. It is not only applicable to special beneficiaries but also to regular beneficiaries. All beneficiaries concentrate on keeping their eligibility for the benefits in the NBLSS.

<Table 17> needs to be reviewed, which shows that work incentive is for special beneficiaries not for regular beneficiaries at least in the variable ‘work capability’. Again, the effect of work ability on work incentive has been the greatest issue in last decade as a negative factor, but the one thing that can be proved by this study is that the effect of work ability on work incentive is not applicable to regular beneficiaries but to special beneficiaries. It needs to study about the tendency that special beneficiaries without work ability are likely to work more. Thus, it is not a surprise that special beneficiaries with work ability are less likely to try to work more. Moreover, it can be proved by the analysis on regular beneficiaries that regular beneficiaries with work ability are likely to work 8 weeks less and regular beneficiaries without work ability are likely to work 8 weeks more. There’s no wonder about this result, because it is caused by the afore-said provision systems

encourage beneficiaries to keep the balance to be in a condition of either special beneficiaries or regular beneficiaries.

The last part is the analysis on the relation between health condition and working days. An unhealthy special beneficiary is likely to work more about a month than healthy special beneficiaries as Beta: -1.831, sig.:0.000, and  $P < 0.01$ . Before continuing the analysis on the model, the result is very odd that unhealthy beneficiaries tend to work more than healthier special beneficiaries. If it is assumed that the 'medication' is a type of special benefit provision, it is also effective on special beneficiaries to get special provision as medication entry. To keep the medication entry of special benefit provision, applicants have to pass the examination under certain criteria such as approved income, which is basically required not to exceed the minimum living cost.

To the end, the variable 'age' affects work incentive most among the variables on working days according to the standardized coefficient  $\beta$  in appendix coefficients. Those analyses on the working days are explained with a possibility of 99% confidence level except education level.

According to the analysis, the work days, being contrary to the assumption of this study, tend to be more in special beneficiaries than in regular beneficiaries. To interpret it in a different view, the fact that special beneficiaries, non-workable beneficiaries and unhealthy beneficiaries have more work days might point out again that the supplementary benefit scheme and the method of total payment, which have been pointed out as the biggest problem in work incentive of the

NBLSS. It is considered that special beneficiaries and regular beneficiaries tend to neglect escape from benefits and self-sufficiency which are considered as the fundamental objective and result of this system, but to consider the criteria(minimum livelihood expenses and a person under obligation to support) in order to keep the eligibility for benefits.

<Table 18> Special Beneficiaries Effect on Earned Income

			Dependent Variable		
			Work Incentive		
			Earned Income		
			B	$\beta$	Sig.
Independent Variable	Beneficiaries	Special Provision	120.570	.116	.001***
Control Variables	Social Demography Factors	Gender	116.000	.128	.003***
		Age	-10.523	-.338	.000
		Marriage	-192.276	-.187	.000
		Education	26.021	.074	.088
	Physical Factors	Work Capability	-80.058	-.194	.039**
		Health condition	-93.545	-.080	.000

\*\*\*p<0.01, \*\*p<0.05, \*P<0.1

<Table 18> shows the relationship between special beneficiaries and earned income. The special beneficiaries are 120.570 (unit: KRW10,000) times more likely to have a possibility to increase their income with 99% confidence level as Beta: 120.570, sig.:0.001, and  $P < 0.01$ . It is also explained by adjusted R square 0.28 that estimated regression model data 28%. (See Appendix for summary of the



model such as value of R square).

The <Table 18> describes that male, younger, single, highly-educated, unhealthier, and non workable beneficiaries are more likely to earn income. To enumerate in detail, males among 46.2% of total special beneficiaries in NBLSS are more likely to earn income KRW 1,160,000 more than females as Beta: 116.000, sig.:0.003, and  $P < 0.01$ . In other words, the income KRW 1,160,000 is increasing with the same amount in every special beneficiary are chance to be a male.

However, the variable 'age' indicates that those younger special beneficiaries are likely to earn KRW 100,000 more as Beta: -10.523, sig.:0.000, and  $P < 0.01$ . For example, special beneficiaries in 40's earn KRW 1,500,000, and special beneficiaries in 50's has a chance to earn KRW 1,920,000 more than special beneficiaries in 40's with very strong effect on the variable 'earned income' among the six variables: gender, age, marriage, education level, health condition, and work ability. Additionally the standardized coefficient  $\beta$  shows the variable 'age' is the most highly effective variable to the earned income.

The highest range of income is the variable 'marriage' that KRW 1,922,760 increases for every unit as Beta: -192.276, sig.:0.000, and  $P < 0.01$ . Interestingly, single special beneficiaries are more likely to earn KRW 1,922,760 more than married special beneficiaries. To think of special beneficiaries, they also want to keep their provision as much as single special beneficiaries, so if they would like to keep the condition as beneficiaries, they should not earn a certain amount of money that the criteria stated. It is highly plausible that married special

beneficiaries earn a certain amount of money or they do not report their exact amount of money to keep the status of a special beneficiary. As it is mentioned above, the tendency of married beneficiaries not work are actually related to the work incentive. It is very simple that the tendency of beneficiaries is to remain as beneficiaries. The tendency not to leave the beneficiary status brings about negative effect on work incentive as <Table 18> shows that married special beneficiaries less likely earn income about KRW 1,922,760. As known well, public benefits effect on work incentive is negative, but in this case it cannot just draw the result as being negative because married special beneficiaries are possible to get paid less money than single beneficiaries.

Healthy special beneficiaries are less likely to earn income, but unhealthier special beneficiaries are likely to earn KRW 935,450 more than healthy special beneficiaries as Beta: -93.545, sig.:0.000, and  $P < 0.01$ . Thus, it becomes apparent that healthy special beneficiaries are likely neither to work more nor to earn more income than unhealthier special beneficiaries.

The last variable to discuss is the relation between work ability and earned income as shown in <Table 18>. The relation between the variable 'work ability' and 'earned income' is analogous to previous relations between work ability and working days. Undoubtedly, the variable 'work ability' is definitely related to work incentive, and work incentive has often been argued as being in some way of negative effect on the NBLSS especially in work ability. Interestingly, the variable 'work ability' has the least power to prove the relation between the variables 'earn

income' and 'work ability' among these independent variables. Needless to say, special beneficiaries with work ability are likely to earn KRW 800,000 less than special beneficiaries without work ability as Beta: -80.058, sig.:0.039, and  $P < 0.05$ .

Ultimately the findings from <Table 16>, <Table 17>, and <Table 18> illustrated that special beneficiaries are more likely to be in economic activities status, work more, and earned more income than regular beneficiaries. The hypothesis, as noted earlier, that the special beneficiaries under the NBLSS will have negative work incentive than regular beneficiaries, was confirmed. Consequently, the special beneficiaries under the NBLSS are positive in the effect on work incentive, but the regular beneficiaries under the NBLSS are negative in the effect on work incentive. Subsequently, the finding in this study is that special beneficiaries are more likely to be positive in work incentive than regular beneficiaries. This is to say, regular beneficiaries are less likely to earn their income while receiving the benefits under the NBLSS.

The result of analysis on work age which is the final dependant variable as a work incentive shows the resultant value which is contrary to the assumption of this study. The fact that special beneficiaries earn 1.2 million won more than regular beneficiaries reflects that there is a problem in the benefit payment under this system as afore-said, and suggests the low security level and wide dead angle in this system.

## Chapter 6. Discussion

The role of the NBLSS as the basic rule is getting bigger, which is the last social security net that the government guarantees the minimum livelihood of people. The result of this study shows that the ‘all or nothing’ benefit system under the current NBLSS, under which benefits are provided on the basis of approved income subject to combination of integrated benefit system and supplementary benefit regulation, may make beneficiaries decrease labor supply or hide economic activities and earned income in order to maintain the eligibility for benefits, instead of escape from poverty through labor. In other words, the assertion of Moffitt(2002) was proved, that if approved income increases to exceed the minimum livelihood expenses, the eligibility for the livelihood benefit is lost, and that for other major benefits(healthcare, education, residence, self-support, etc.) is lost also; therefore, actual income decreases drastically to be less than that before the escape from such benefits. Thus, there may be the phenomenon that beneficiaries under the NBLSS decrease labor supply at a certain time when their earned income increases, not to lose the eligibility for the benefits.

As seen above, the beneficiaries in this system tend to avoid working provide minimal work to main the eligibility for benefits. As discussed in literature review and work incentive, all-or-nothing system which consists of supplementary benefit system and integrated benefit payment system decline the work incentive of beneficiaries, and the low security level and wide dead angle drop the work incentive of special beneficiaries. This reversely proves the hypothesis of this that the work incentive of special beneficiaries would be lower than that of regular beneficiaries.

It satisfies the hypothesis of this study in dependence on the welfare path since special beneficiaries receiving more benefits than regular beneficiaries have a stronger tendency not to lose the benefit status, so they could not avoid depending on the welfare path; however, it needs to reject the hypothesis since special beneficiaries have higher work incentive than regular beneficiaries. To interpret in another way, about 19% of special beneficiaries were workable, being 109 out of 576; and about 53% of regular beneficiaries were workable. Under this assumption, The fact that above 50% of regular beneficiaries have negative tendency in work incentive shows benefit provision under the NBLSS has been inappropriate (see Appendix on benefit level evaluation); and the fact that special beneficiaries among whom 20% or less are workable have positive tendency in work incentive shows they work to supplement lacking benefit individually (see Appendix).

The existing benefit provision system which used to be integrated will be

changed to the welfare system of paying the benefits by different levels after selecting the beneficiaries for special benefits (residence, healthcare and education) by steps in October, 2014. This will be much helpful not only for the welfare of people in unprivileged condition of welfare but also for special beneficiaries who are main targets, and it is expected that this will influence inducing the normal beneficiaries of the NBLSS excluding a certain period of time and a certain group (special beneficiaries).

Therefore, this study on the work incentive of special beneficiaries is significant because it is possible to indirectly predict the effect on future change of benefit providing system for special beneficiaries. However, it needs to consider the possibilities that the concerned authorities would handle each kind of benefit by introduction of individual benefits; that the right of beneficiaries may be weakened; and that practical livelihood is not secured due to practical dissolution of the minimum livelihood expenses. Furthermore, this leads to the conclusion that the new benefit system for special beneficiaries by levels, which will be introduced in 2014, will increase the work incentive of special beneficiaries; and eventually, the effect of the coming change in the benefit system is expected to be positive.

In conclusion it was intended to find sustainable effects of the two groups who are regular beneficiaries and special beneficiaries, however, one recent year was used for this study, so transverse section was reviewed instead of longitudinal section, so the sustainable characteristics of welfare benefits were missed, which is

considered as the marginal point. In addition, missing value exists due to the characteristics of beneficiaries under the NBLSS, and reducing it may bring more accurate results of study.

In the last any inaccuracies which remain are, of course, my own.

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## -Appendix-

### Correlations

		S.R	Gen	Age	Mar	Edu	Hel	Wor
S.R	Pearson.C	1	.072	-.026	.000	.033	.047	-.049
	Sig. (2-tailed)		.085	.526	.998	.436	.265	.240
	N	576	576	576	576	576	576	576
Gen	Pearson.C	.072	1	.154**	.541**	-.226**	.033	.032
	Sig. (2-tailed)	.085		.000	.000	.000	.428	.439
	N	576	576	576	576	576	576	576
Age	Pearson.C	-.026	.154**	1	.050	-.554**	.218**	.333**
	Sig. (2-tailed)	.526	.000		.234	.000	.000	.000
	N	576	576	576	576	576	576	576
Mar	Pearson.C	.000	.541**	.050	1	-.148**	.039	.046
	Sig. (2-tailed)	.998	.000	.234		.000	.355	.272
	N	576	576	576	576	576	576	576
Edu	Pearson.C	.033	-.226	-.554**	-.148**	1	-.165**	-.152**
	Sig. (2-tailed)	.436	.000	.000	.000		.000	.000
	N	576	576	576	576	576	576	576
Hel	Pearson.C	.047	.033	.218**	.039	-.165**	1	.274**
	Sig. (2-tailed)	.265	.428	.000	.355	.000		.000
	N	576	576	576	576	576	576	576
Wor	Pearson.C	-.049	.032	.333**	.046	-.152**	.274**	1
	Sig. (2-tailed)	.240	.439	.000	.272	.000	.000	
	N	576	576	576	576	576	576	576

\*\* Correlation is significant at the 0.01 level (2-tailed).

#### Variables in the Equation

	B	S.E.	Wald	F	Significant	Exp(B)
Step 1 <sup>a</sup> Special beneficiarys	.441	.315	1.957	1	.102	1.554
Gender	.325	.339	.919	1	.338	1.384
Age	-.060	.014	17.343	1	.000	.942
Marriage	-.273	.369	.545	1	.460	.761
Education	-.020	.145	.019	1	.889	.980
Health condition	-.062	.156	.157	1	.692	.940
Work Capability	-18.776	2997.929	.000	1	.995	.000
Constant	20.352	2997.929	.000	1	.995	6.899E8

a. Variable(s) entered on step 1: Special beneficiarys, Gender, Age, Marriage, Education, Health condition, Work Capability.

#### Summary Model

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	307.308	.126	.259

#### Economic Activities Tests of Model Coefficients

	$\chi^2$ (Chi-square)	F	Significant
Step 1 Steps	77.624	7	.000
Block	77.624	7	.000
Model	77.624	7	.000

#### Hosmer and Lemeshow Test

Step	$\chi^2$ (Chi-square)	F	Significant
1	6.169	8	.628

Model Summary

Model	R	R Square	Adjusted R Square	Std. of the Estimate
1	.561 <sup>a</sup>	.315	.306	4.10566
2	.561 <sup>b</sup>	.314	.307	4.10322

a. Predictors: (Constant), Work Capability, Gender, Special, Education level, Health Condition, Marriage, Age

b. Predictors: (Constant), Work Capability, Gender, Special, Health Condition, Marriage, \_Age

ANOVA<sup>c</sup>

Model		Sum of Squared	d.f	Mean Square	F	Sig.
1	Regression	4395.309	7	627.901	37.250	.000 <sup>a</sup>
	Residual	9574.441	568	16.856		
	Total	13969.750	575			
2	Regression	4389.847	6	731.641	43.456	.000 <sup>b</sup>
	Residual	9579.903	569	16.836		
	Total	13969.750	575			

a. Predictors: (Constant), Work Capability, Gender, Special, Education level, Health Condition, Marriage, Age

b. Predictors: (Constant), Work Capability, Gender, Special, Health Condition, Marriage, Age

c. Dependent: Total Work Days

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	S.E.	$\beta$		
1	Constant	16.195	1.495		10.835	.000
	Special	.957	.397	.084	2.408	.016
	Gender	1.429	.417	.145	3.423	.001
	Age	-.123	.015	-.364	-8.247	.000
	Marriage	-1.631	.465	-.146	-3.509	.000
	Education level	.093	.163	.024	.569	.569
	Health Condition	-.967	.193	-.184	-5.021	.000
	Work Capability	-1.844	.413	-.169	-4.466	.000
2	Constant	16.774	1.094		15.330	.000
	Special	.966	.397	.085	2.433	.015
	Gender	1.402	.414	.142	3.383	.001
	Age	-.128	.013	-.377	-9.996	.000
	Marriage	-1.648	.464	-.147	-3.553	.000
	Health Condition	-.974	.192	-.185	-5.073	.000
	Work Capability	-1.831	.412	-.168	-4.443	.000

a. Dependent: Total Work Days

Variables Entered/Removed<sup>b</sup>

Model	Enter $\beta$	t	Sig.	Partial Correlation Coefficient	Statistic Collinearity
					Tolerance
2 Education level	.024 <sup>a</sup>	.569	.569	.024	.665

a. Predictors Model: (Constant), \_Work Capability, Gender, Special, Health Condition, Marriage, Age

b. Dependent: Total Work Days

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.539 <sup>a</sup>	.290	.281	383.99940

a. Predictors: (Constant), Special, Marriage, Age, \_Health Condition, Work Capability, Gender, Education level

ANOVA<sup>b</sup>

Model		Sum of Squared	df	Mean Square	F	Sig.
1	Regression	3.423E7	7	4890406.959	33.165	.000 <sup>a</sup>
	Residual	8.375E7	568	147455.537		
	Total	1.180E8	575			

a. Predictors: (Constant), Special, Marriage, , Health Condition, Work Capability, Gender, Education level

b. Dependent: Earned Income

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	$\beta$		
1	Constant	1313.476	139.792		9.396	.000
	Gender	116.000	39.041	.128	2.971	.003
	Age	-10.523	1.397	-.338	-7.533	.000
	Marriage	-192.276	43.478	-.187	-4.422	.000
	Education level	26.021	15.231	.074	1.708	.088
	Health Condition	-93.545	18.008	-.194	-5.195	.000
	Work Capability	-80.058	38.627	-.080	-2.073	.039
	Special	120.570	37.166	.116	3.244	.001

a. Dependent Variable: Earned Income



Capability to work in Beneficiarys

Work Capability	Total	Number	Percentage
SpecialBeneficiarys	576	109	19%
Regular Beneficiarys	576	302	53%

Estimation Level of the NBLSS Benefits

Division	Enough	Good	Normal	Lack	Very Lack
Special Beneficiarys Number	5	21	23	86	10
Special Beneficiarys Percentage	3.4	14.48	15.86	59.3	6.9
Regular Beneficiarys Number	16	32	97	249	37
Regular Beneficiarys Percentage	3.7	7.42	22.5	57.77	8.58

## 국문초록

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1997년 외환위기로 이후 생계유지가 곤란한 저소득층이 증가함에 따라 국가가 모든 국민의 기본적인 생활을 제도적으로 보장해주어야 한다는 보편적 복지의 필요성이 대두되었다. 이에 따라 2000년 10월 국민기초생활보장제도가 도입되었고 이로써 이전에 근로능력이 있는 복지 대상자에게는 현금지원이 이루어지지 않았던 과거와 달리 자활사업 참여를 조건으로 근로능력이 있는 빈곤계층에까지 현금지원을 시행함으로써 수급범위가 확대되었다. 국민기초생활보장제도는 사회의 최종안전망이자 국민권리의 기본법으로서 국가가 국민의 최저생계수준을 보장한다는 점에서 의의가 있는 제도라고 할 수 있다.

그러나 최저생활보장과 함께 국민의 자활을 유도하고자 하는 양대 목적을 가지는 국민기초생활보장제도는 근로유인에 있어 제도적 문제점을 가진다는 지적이 되어왔다. 국민기초생활보장제도의 지원이 수급자들로 하여금 오히려 수급자격을 유지하기 위해 오히려 근로를 기피하거나 수급자격을 유지할 수 있는 최소한의 근로만을 제공하는 등 근로증가의 반대되는 결과를 유도할 수 있기 때문이다. 실제 소득인정액 수준이 최저생계비 이하일 경우 그 차액을 보전해 주는 보충급여방식과 급여수급의 자격조건이 충족되면 특례수급 또한 일괄적으로 지급받지만 자격을 상실하면 아무것도 받지 못하는 통합적 지급방식(all or nothing)은 수급자로 하여금 수급지위를 벗어나지 않으려는 복지의존성을 심화시켜 결국 근로유인을 해치는 요인으로 논의되어왔다. 또한 낮은 보장수준과 넓은 제도의 사각지대는 수급자 집단 중 특히 특례수급자 집단의 근로유인을 저하시킬 우려가 있어 보인다.

이에 본 연구는 일반수급자집단에 비해 해당 급여를 더 받는 특례수급자집단이 복지에 대한 의존성이 더 클 것이라는 가정에 따라 특례수급자 집단의 근로유인 또한 일반수급자 집단 보다 더 낮을

것이라는 가설을 수립하였다. 이에 국민기초생활보장제도 수급자 집단을 일반수급자 집단과 특례수급자 집단으로 구분한 뒤 경제활동여부, 근로일수, 근로소득을 포함하는 근로유인에 어떻게 영향을 미치는지 분석하였다.

분석결과 특례수급자 집단의 근로유인은 정(+)으로 나타난 반면 일반수급자 집단의 근로유인은 오히려 부(-)로 나타났다. 다른 각도에서 재해석하면 특례수급자 집단의 경우 일할 능력이 있는 자가 576명 중 109명으로 약 19%이며 일반수급자 집단의 경우 약 53%의 일할 능력이 있는 자들로 구성되어있다는 점을 고려할 때, 일할 능력이 50%가 넘는 일반수급자 집단에서 근로유인이 부정적으로 나타났다는 것은 수급자들의 급여수준 평가를 통해 국민기초생활보장제도 상의 수급제공이 적절하지 않았다고 판단할 수 있다. 또한 일할 능력이 20%도 안 되는 특례수급자 집단에서 근로유인이 긍정적으로 나타났다는 것은 낮은 급여수준을 개별적으로 보충하기 위해 근로를 한다고 결론 내릴 수 있다. 결국 모든 수급자는 수급자격을 유지할 수 있는 최소한의 근로를 제공한다고 해석할 수 있다.

본 연구는 이러한 통합급여체계와 보충급여원칙이 결합되어 소득인정액을 기준으로 한 현재의 국민기초생활보장제도의 통합적 지급방식(all or nothing)의 복지급여지급은 수급자에게 근로를 통한 빈곤탈출보다는 수급권 유지를 위해 노동공급을 줄이거나 경제활동 및 근로소득을 은폐하려는 유인을 제공할 가능성이 있음을 시사한다.

기 연구에서 밝혀진 바 대로 소득인정액이 최저생계비 이상으로 증가하면 생계급여의 자격을 잃게 되며 동시에 다른 주요급여(의료, 교육, 주거, 자활급여 등)의 수급자격을 잃게 되므로 실질적인 소득이 수급탈피 이전보다 급격히 감소하게 됨은 당연하다. 따라서 분석을 바탕으로 국민기초생활 수급자는 근로소득이 수급자격기준을 초과하지 않도록 근로소득 증가의 일정 지점에서 근로를 줄이는 현상이 발생하는 것으로 볼 수 있다.

2014년에 시행될 특례수급자 집단을 대상으로 한 새로운 단계별 급여체계가 특례수급자 집단의 근로유인을 높인다는 결론을 가져옴으로써 앞으로 있을 급여체계변동의 효과는 긍정적인 효과를 거둘

것으로 예상된다. 따라서 특례수급자 집단을 중심으로 그들의 근로유인을 분석한 본 연구는 특례수급자 집단의 급여전달 체계변동에 대한 효과를 간접적으로 예측할 수 있다는 점에서 의의가 있다. 하지만 개별급여 도입으로 급여별 보장기관이 달라지고 이로 인해 수급권자의 권리 실현이 약화될 가능성과 최저생계비의 실질적인 해체로 인해 보다 실질적인 생계보장이 이루어지지 않을 가능성을 고려해야한다.

주요어: 특례수급자, 근로유인, 국민기초생활보장제도, 노동정책, 공공부조

학번 : 2010-22199